Air Pouch
PRIORITY

CONFIDENTIAL
(Security Classification)

DO NOT TYPE IN THIS SPACE
773.5 MSP/11-2058

FOREIGN SERVICE DESPATCH

FROM : Amembassy BENGHAZI

86
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

November 20, 1958
DATE

REF :

Nov. 24, 1958

For Dept. Use Only	ACTION	DEPT.
	AF-5	
	REC'D	INFO OTHER
	12-1-58	RMR-2 IRC-8 ICA-10 E-7 W/MSC-3 CIA-12 ARMY-4 NAVY-3 AIR-4 OSD-4

SUBJECT: Economic Aid Negotiations

In connection with recent reporting from this post on the probable line or lines of approach that will be used by the Libyan Government in requesting further economic assistance from the United States, the enclosed reproductions of articles in the Libyan English-language press may be of interest to the Department.

The Embassy wishes to comment that neither of the newspapers in which these articles appeared is a government organ, nor is the newspaper al-Raid, which is quoted in one of the articles. Thus the Libyan Government can disclaim any responsibility for the opinions expressed in them. However, the principal theme of the articles--complete Libyan control over the allocation of American aid funds--is known to be a consummation devoutly to be wished by the Prime Minister and his closest supporters, as well as by a large percentage of Libyans at all levels of government, Federal and Provincial. It is also known that the Prime Minister looks upon at least part of the present economic development program as a useless and wasteful distribution of resources that could be, in his opinion, much better employed elsewhere. Some officials of the government, particularly in the Provincial Administration, do not agree with this latter thesis, but they are in the minority, in influence as well as in number.

The Embassy believes that most of the disaffected Libyans are under the impression, as indicated in the newspaper articles, that the forthcoming absorption of various binational development agencies (LARC, LPD&SA, the Joint Services) into a central Libyan "Development Council" will mean that future allocations of aid funds will be completely controlled by Libyans. When they find out that this is not so, that the Development Council will have to negotiate project agreements with ICA and carry out the projects under ICA procedural regulations, the merger is likely to lose a good part of its political attractiveness to the Libyans and of its value to the U.S. Government as, among other considerations, a means of shifting responsibility to the Libyan Government and avoiding criticism of U.S. agencies.

DEPARTMENT OF STATE A/CDC/MR
REVIEWED BY J.M. Razi DATE May 6, 1982

For the Ambassador:

Edwin L. Smith
Counselor of Embassy

2 Enclosures:
1. Article entitled "Change in US Aid System"
2. " " "Aidless Assistance".

ECON:FKHandy:cs
Copies sent to Tripoli (2)

CONFIDENTIAL

ACTION COPY — DEPARTMENT OF STATE

The action office must return this permanent record copy to DCR files with an endorsement of action taken.

1958 DEC PM 3 14
RECORDS MANAGEMENT CENTER
DEC 1958
FILED

This Document must be Returned to the RMR Central Files

773.5 MSP/11-2058 HBS

CONFIDENTIAL FILE

UNCLASSIFIED
(Classification)

Editorial Appearing in Tripoli's Sunday Ghibli, November 16, 1958

CHANGE IN US AID SYSTEM FORECAST
"LARC AND LAJS TO GO: CASH AID DIRECT TO LIBYA" SAYS ARAB PRESS

The American Government has agreed to abolish the two principal US aid missions in Libya--Libyan American Joint Services (LAJS) and Libyan American Reconstruction Commission (LARC) said Al Raid, the usually well-informed Arab-language weekly, yesterday.

Though the statement so far finds no confirmation from US Embassy sources, Tripoli observers see it as meaning that the US Government may give money to the Libyan Government to finance reconstruction projects in the way that Libya thinks best.

The Al Raid announcement reads: "The Libyan Government has received officially from the US Government a reply agreeing to abolish Libyan American Joint Services and the Libyan American Reconstruction Commission, which will be embodied in a single Libyan agency after abolition of the Libyan Public Development and Stabilisation Agency.

"The Libyan Government has formed a Council, presided over by the Minister of Economy, who was joined by experts to make a draft of laws which will lay down, supervise and finance development plans.

"Al Raid announced a month ago that this Council had formed a branch committee to prepare this draft and has passed it. Now the Council will meet to present it to the Council of Ministers for confirmation before passing it on to Parliament as proposed law."

Embassy Comment

A US Embassy spokesman, asked about the Al Raid statement, commented yesterday: "America at all times works with the Libyan Government to find the best formula by which American aid to Libya can be used, but this is the first I have heard of the plan printed in Al Raid."

Al Raid's announcement follows the recent reshuffle of the Development Council--the body which coordinates all aid projects in Libya--whereby the Council was given executive powers. It also comes after several unconfirmed reports that the Government has asked for a revision upwards of the financial clauses of the Base Rights Agreement with the USA.

******

UNCLASSIFIED

UNCLASSIFIED
(Classification)

Encl. No. 2
Desp. No. 86
From Benghazi

Editorial Appearing in Benghazi's Cyrenaica Weekly News, November 16, 1958

AIDLESS ASSISTANCE

In the Speech from the Throne at the last session of Parliament, the Government promised to follow a new policy regarding the assistance received by Libya in accordance with the American Foreign Aid Programme. The Government then said that it would formulate a new plan designed to ensure that the assistance funds were spent on suitable economic development and reconstruction projects which would suit Libya's real needs.

It was understood from this that the Government agreed with the opinion prevailing in Libya which was dissatisfied with the way the assistance funds were being spent on projects of no real benefit to the country.

Later it was announced that the Government would implement its decision by reorganizing the Development Council and giving it wide powers enabling it to plan and execute suitable economic development and reconstruction projects which would benefit Libya. Public opinion welcomed this step considering it a practical solution to the problem which would direct foreign assistance--however limited such assistance might be--into more useful channels.

One year has now elapsed since this announcement without the government carrying out its proclaimed policy and without any change in the Development Council powers. American assistance to Libya is still being spent in the same way--through a number of different organizations, each with its excessive complement of administrators, experts and specialists--a method of wasteful distribution, unequalled by any other country which receives assistance.

If anyone enquires why there should be so many organizations, he is told that Libyan development and progress required them. When anyone looks for proof of the progress resulting from American Aid, he realises the errors of American policy in this part of the world.

American insistence in spending financial aid and providing technical assistance via these organizations is one of the main reasons for the failure of the Development Council to plan and execute the economic development projects needed by the country. This insistence shows clearly that America wishes to control the spending of these funds in accordance with its own feelings and not in accordance with the needs of country to which the aid is presented.

It appears that the U.S. Government does not realise that this assistance is given to Libya in return for important strategic and political interests and thus it is the right of the Libyan people to dispose of the funds in a manner compatible with the country's interests and progress.

We realize that American assistance is limited compared to that obtained from other countries. However, we also believe it could contribute to the economic progress of the country if America adopted a positive policy by dissolving the assistance organizations and by giving the Libyan Government a free hand without

UNCLASSIFIED

ties or conditions. Such a policy would make it possible for Libya to benefit from American aid by utilizing it on projects designed to raise the living standards of the people.

The Development Council taking over full responsibility depends on the attitude of the Government. As long as the Development Council does not have the power to control these funds effectively, in accordance with the country's needs, it will not be possible for Libya to realize any benefits from them any more than it will be possible for the U.S. to expect any moral gain from their aid.

******